

**MONTGOMERY COUNTY MEMORIAL HOSPITAL**  
**INDEPENDENT AUDITOR'S REPORT**  
**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

# MONTGOMERY COUNTY MEMORIAL HOSPITAL

## Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	23
SUPPLEMENTARY INFORMATION:	
Schedules Supporting Statements of Net Position:	
Patient receivables	24
Inventory/Prepaid expense	25
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Position:	
Patient service revenue	26
Revenue and related adjustments	27
Nursing service expenses	28
Other professional service expenses	31
General service expenses	36
Fiscal and administrative service expenses	37
Comparative Statistics	39
Comparative Statements of Net Position	40
Comparative Statements of Revenues and Expenses	41
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42
Schedule of Findings	44

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2013

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Jim Robinson, Chair	Villisca, Iowa	2016
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2014
Lorin Petersen, Treasurer	Stanton, Iowa	2014
Roger Ehmke, Secretary	Red Oak, Iowa	2016
Kathy Carlson	Red Oak, Iowa	2018
Sarah Smith	Red Oak, Iowa	2014
Kevin Cabbage	Stanton, Iowa	2018

Chief Executive Officer:

Allen E. Pohren	Red Oak, Iowa
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Chief Financial Officer:

Rick Leinen	Red Oak, Iowa
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# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Montgomery County Memorial Hospital as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees  
Montgomery County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion the financial statements referred to above present fairly in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2013 and 2012 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 24 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees  
Montgomery County Memorial Hospital

**Report on Other Legal and Regulatory Requirements**

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2013 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

*Gwendolyn, Beth, Kyhn & Co., P.C.*

Atlantic, Iowa  
December 11, 2013



# Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2013, 2012, and 2011. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

### FINANCIAL HIGHLIGHTS

The Hospital's net position increased in 2013 by \$583,090, or 2.4 percent. The Hospital's net position increased in 2012 by \$827,121 or 3.5 percent.

The Hospital reported an operating loss of \$853,926 in 2013 and an operating loss of \$603,080 in 2012. In 2011, the Hospital reported an operating loss of \$1,822,607.

Non-operating revenues were \$1,406,016 in 2013, \$1,337,085 in 2012, and \$1,255,677 in 2011. The largest component of non operating revenues is county taxes, which have been approximately \$1.45 million each year (\$1.53 million in 2013).

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position, the difference between assets and liabilities, is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 4. The Hospitals' net position increased \$583,090 or 2.4 percent in 2013 and increased \$827,121 or 3.5 percent in 2012, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 8,809,727	\$ 8,491,206	\$ 8,758,044
Capital assets, net	19,985,689	21,455,529	21,924,713
Other noncurrent assets	<u>7,789,028</u>	<u>6,922,362</u>	<u>5,966,628</u>
Total assets	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>	<u>\$ 36,649,385</u>
Liabilities:			
Long-term debt outstanding	\$ 7,170,476	\$ 7,632,880	\$ 8,174,106
Other current and noncurrent liabilities	<u>4,441,055</u>	<u>4,846,394</u>	<u>4,912,577</u>
Total liabilities	<u>\$ 11,611,531</u>	<u>\$ 12,479,274</u>	<u>\$ 13,086,683</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 12,352,809	\$ 12,687,661	\$ 12,302,941
Restricted expendable assets	71,461	71,343	71,197
Unrestricted	<u>12,548,643</u>	<u>11,630,819</u>	<u>11,188,564</u>
Total net position	<u>\$ 24,972,913</u>	<u>\$ 24,389,823</u>	<u>\$ 23,562,702</u>
Total liabilities and net position	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>	<u>\$ 36,649,385</u>



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2 shows the components of the operating and non operating activities and the resulting effect on changes in net position.

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues:			
Net patient service revenues	\$ 27,129,758	\$ 26,501,171	\$ 25,394,158
Other operating revenues	<u>392,062</u>	<u>389,145</u>	<u>335,312</u>
Total operating revenues	27,521,820	26,890,316	25,729,470
Operating Expenses:			
Salaries and wages	13,021,138	12,687,076	12,517,178
Employee benefit	4,335,001	4,017,723	3,681,276
Professional fees	1,775,257	1,824,513	1,816,852
Other operating expenses	7,095,704	6,744,878	7,122,000
Depreciation and amortization	<u>2,148,646</u>	<u>2,219,206</u>	<u>2,414,771</u>
Total operating expenses	28,375,746	27,493,396	27,552,077
Operating loss	( 853,926)	( 603,080)	( 1,822,607)
Non operating Revenues and Expenses:			
County taxes	1,532,004	1,458,468	1,366,800
Investment income	24,676	23,365	31,948
Noncapital grants and contributions	16,589	25,403	19,870
Other non operating revenues			
(expenses), net	<u>( 167,253)</u>	<u>( 170,151)</u>	<u>( 162,941)</u>
Total non operating revenues, net	1,406,016	1,337,085	1,255,677
Excess of Revenues Over Expenses			
(Expenses Over Revenues) Before			
Capital Grants and Contributions	552,090	743,005	( 566,930)
Capital Grants and Contributions	<u>31,000</u>	<u>93,116</u>	<u>45,000</u>
Increase (Decrease) in Net Position	583,090	827,121	( 521,930)
Net Position Beginning of Year	<u>24,389,823 *</u>	<u>23,562,702 *</u>	<u>24,084,632 *</u>
Net Position End of Year	<u>\$ 24,972,913</u>	<u>\$ 24,389,823 *</u>	<u>\$ 23,562,702 *</u>

\* *Restated Note N*

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2013, the Hospital had an operating loss of (\$853,926); in 2012, it was (\$603,080); and in 2011, the Hospital had an operating loss of (\$1,822,607). The operating loss in 2013 represents an increase of \$250,846 from the loss in 2012, and the operating loss in 2012 represents a decrease of \$1,219,527 from the loss in 2011.

**The primary components of these operating income and operating losses are:**

Net patient service revenue increased \$628,587 or 2.4 percent from 2012 to 2013. Components of this include \$817,334 in increased patient charges (1.9%), \$140,809 in increased contractual adjustments (1.0%), and increased \$16,493 provision for bad debts and charity care. Accounts written off were higher from 2013 to 2012. The aging of accounts receivable shows a trend of newer accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for the years in 2011, 2012, and 2013. In addition, Surgical Services were provided. Contractual adjustments include Medicare and Medicaid EHR incentive payments.

In 2013, contractual adjustments are 34.2 percent of patient service revenue, compared to 34.5 percent of patient service revenue in 2012, 34.2 percent in 2011, 31.8 percent in 2010, and 32.6 percent in 2009. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 57 percent of the Hospital's patient service revenue in 2013 (58 percent in 2012). Medicaid represents about 8.4 percent of the Hospital's patient service revenues in 2013 (8.0 percent in 2012).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, two years of Medicare and two years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are increasing significantly. In particular, the Hospital's Wellmark business is at a discount of 20.8% for 2013 as compared to 19.0% for 2012. With new payment systems in place we expect Wellmark's contractual allowances to decrease in 2014.

Salaries and wages costs increased \$334,062 or 2.6 percent from 2012 to 2013. Employee benefits increased \$317,278 or 7.9 percent in 2013. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses increased \$882,350 or 3.2 percent from 2012 to 2013. Included in this is a decrease in depreciation and amortization expense of \$70,560 or 3.2 percent.

Depreciation includes the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in decreased depreciation and equipment maintenance costs.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

### NONOPERATING REVENUES AND EXPENSES

Non operating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

### GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

### THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and non operating revenues and expenses, discussed earlier.

### BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2013 was prepared on a modified accrual basis. Hospital revenues and expenditures were less than budgeted amounts during 2013 by \$4,484,220 and \$5,200,481, respectively. The budgeted amounts were higher due to higher anticipated bad debts, salaries and benefits expenditures and lower actual patient volume.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets:

At the end of 2013, the Hospital had \$19,694,373 invested in capital assets, net of accumulated depreciation (\$21,051,974 in 2012), as detailed in Note F to the financial statements. In 2013, the Hospital purchased new property and equipment costing \$868,449 (\$1,502,066 in 2012; \$1,036,204 in 2011). In 2012 the Hospital removed historical assets no longer in use or present amounting to \$3,679,943.

During the year ended June 30, 2011, the Hospital capitalized its long-term site development, renovation and expansion of the existing facility with a total cost of \$15,142,628.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis – Continued

Debt:

At year-end, the Hospital had \$7,632,880 in long-term debt outstanding as detailed in Note G (\$8,074,502 at June 30, 2012).

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller's Office at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Net Position  
June 30,

ASSETS

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 677,678	\$ 1,657,621
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,202,000 in 2013, \$1,519,000 in 2012)	4,817,817	4,644,340
Other receivables	67,198	62,379
Inventory	380,900	396,487
Prepaid expense	299,933	168,973
Estimated third party payor settlements	953,000	--
Succeeding year property tax receivable	1,525,000	1,469,000
Internally designated assets	<u>88,201</u>	<u>92,406</u>
Total current assets	8,809,727	8,491,206
Designated and Restricted Assets:		
Internally designated assets	7,265,661	6,424,608
Restricted assets	<u>71,461</u>	<u>71,343</u>
	7,337,122	6,495,951
Less amounts required to meet current liabilities	<u>88,201</u>	<u>92,406</u>
	7,248,921	6,403,545
Capital Assets:		
Depreciable capital assets, net	19,694,373	21,051,974
Non-depreciable capital assets	<u>291,316</u>	<u>403,555</u>
	19,985,689	21,455,529
Other Assets:		
Notes receivable	32,750	25,000
Other	<u>507,357</u>	<u>493,817</u>
	540,107	518,817
Total assets	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 462,404	\$ 434,609
Accounts payable	756,426	1,167,688
Accrued salaries and wages	514,049	453,974
Accrued other employee compensation	829,779	820,511
Accrued interest payable	28,048	29,671
Accrued fees	21,219	19,219
Payroll taxes withheld and accrued	255,695	226,557
Other current liabilities	48,435	18,165
Estimated third-party payor settlements	--	207,000
Deferred revenue for succeeding year property tax receivable	<u>1,525,000</u>	<u>1,469,000</u>
Total current liabilities	<u>4,441,055</u>	<u>4,846,394</u>
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	<u>7,170,476</u>	<u>7,632,880</u>
Total liabilities	11,611,531	12,479,274
Net Position:		
Invested in capital assets, net of related debt	12,352,809	12,687,661
Restricted - expendable	71,461	71,343
Unrestricted	<u>12,548,643</u>	<u>11,630,819</u>
Total net position	<u>24,972,913</u>	<u>24,389,823</u>
 Total liabilities and net position	 <u>\$ 36,584,444</u>	 <u>\$ 36,869,097</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Position  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Revenue:		
Net patient service revenue	\$ 27,129,758	\$ 26,501,171
Other revenue	<u>392,062</u>	<u>389,145</u>
Total revenue	27,521,820	26,890,316
Expenses:		
Nursing service	7,208,712	6,839,283
Other professional service	12,035,677	11,841,591
General service	2,708,291	2,581,464
Fiscal and administrative service	4,274,420	4,011,852
Provision for depreciation	<u>2,148,646</u>	<u>2,219,206</u>
Total expenses	<u>28,375,746</u>	<u>27,493,396</u>
Operating Loss	( 853,926)	( 603,080)
Non-Operating Revenue (Expenses):		
County taxes	1,532,004	1,458,468
Investment income	24,676	23,365
Noncapital grants and contributions	16,589	25,403
Rental income, net	203,997	226,676
Interest expense	<u>( 371,250)</u>	<u>( 396,827)</u>
Non-operating revenue, net	<u>1,406,016</u>	<u>1,337,085</u>
Excess of Revenues Over Before Capital Grants and Contributions	552,090	734,005
Capital Grants and Contributions	<u>31,000</u>	<u>93,116</u>
Increase in Net Position	583,090	827,121
Net Position - Beginning of Year, as restated (Note N)	<u>24,389,823</u>	<u>23,562,702</u>
Net Position - End of Year, as restated	<u>\$ 24,972,913</u>	<u>\$ 24,389,823</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 25,791,462	\$ 26,537,133
Cash paid to suppliers	( 12,957,378)	( 12,457,428)
Cash paid to employees	( 12,951,795)	( 12,566,015)
Other revenue received	<u>392,062</u>	<u>389,145</u>
Net cash provided by operating activities	274,351	1,902,835
Cash flows from non-capital financing activities:		
County tax received	1,532,004	1,458,468
Noncapital grants and contributions	<u>16,589</u>	<u>25,403</u>
Net cash provided by non-capital financing activities	1,548,593	1,483,871
Cash flows from capital and related financing activities:		
Construction in progress expenditures	( 625,259)	( 774,311)
Purchase of property and equipment	( 824,317)	( 1,296,919)
Principal paid on long-term debt	( 441,622)	( 421,774)
Principal paid on capital leases	--	( 138,181)
Interest paid	( 365,860)	( 400,849)
Capital grants and contributions	<u>31,000</u>	<u>93,116</u>
Net cash used in capital and related financing activities	( 2,226,058)	( 2,938,918)
Cash flows from investing activities:		
Investment income received	24,676	23,365
Increase in designated and restricted assets	( 7,213)	( 7,106)
Increase in notes receivable, net	( 15,000)	( 25,000)
Office building rental income	280,601	279,125
Increase in other assets	<u>( 25,935)</u>	<u>( 38,638)</u>
Net cash provided by investing activities	257,129	231,746
Net increase (decrease) in cash and cash equivalents	( 145,985)	679,534
Cash and cash equivalents at beginning of year	<u>6,287,298</u>	<u>5,607,764</u>
Cash and cash equivalents at end of year	<u>\$ 6,141,313</u>	<u>\$ 6,287,298</u>

(continued next page)



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 677,678	\$ 1,657,621
Cash and cash equivalents in internally designated assets	<u>5,463,635</u>	<u>4,629,677</u>
	<u>\$ 6,141,313</u>	<u>\$ 6,287,298</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 853,926)	\$( 630,987)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	2,148,646	2,219,206
Amortization	19,645	55,303
Changes in assets and liabilities		
Accounts receivable	( 178,296)	( 1,109,038)
Inventory	15,587	17,107
Prepaid expense	( 130,960)	261,917
Estimated third-party payor settlements	( 1,160,000)	1,145,000
Accounts payable, trade	282,904	( 209,022)
Accrued salaries and wages	60,075	85,805
Accrued other employee compensation	9,268	35,256
Payroll taxes withheld and accrued	29,138	47,416
Accrued fees	2,000	1,500
Other current liabilities	30,270	( 16,628)
Total adjustments	<u>1,128,277</u>	<u>2,533,822</u>
Net cash provided by operating activities	<u>\$ 274,351</u>	<u>\$ 1,902,835</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health, hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. It has limited assets and activity other than collecting contributions to be disbursed to the Hospital. Therefore, combining the component unit would not have a material effect on these financial statements.

The following summary shows the net increase or (decrease) blending the component would have on the assets, net position, and revenues of Montgomery County Memorial Hospital as of and for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Assets would increase by	\$ <u>216,369</u>	\$ <u>188,606</u>
Net Position would increase by	\$ <u>216,369</u>	\$ <u>188,606</u>
Revenues would increase (decrease) by	\$ <u>27,763</u>	\$( <u>9,390</u> )

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of two years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$ - 0 - in 2013 (\$25,000 in 2012).

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Position

Net position of the Hospital is classified in three components. *Invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

18. Accounting Changes

In June, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. This statement is effective for the Hospital for 2012-2013.

The GASB has issued GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*" and GASB Statement No. 66 "*Technical Corrections - 2012*." No. 65 specifies proper accounting treatment for certain items and helps clarify the items that should be included under the categories established under Statement No. 63. No. 66 resolves conflicting guidance that resulted from previously issued Statements No. 54 and No. 62. The Hospital has elected to early implement these Statements, which are required to be implemented in the 2013-2014 year. See Note N for effects of accounting change.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Long-term debt	\$ <u>71,461</u>	\$ <u>71,343</u>

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2013 or 2012.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	<u>2013</u>	<u>2012</u>
Purchase of property and equipment	\$ <u>31,000</u>	\$ <u>93,116</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE D - DESIGNATED ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$12,548,643 (\$11,630,819 as of June 30, 2012) of unrestricted net position as of June 30, 2013, \$7,265,661 (\$6,424,608 for 2012) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2013</u>	<u>2012</u>
Capital acquisitions and related property taxes	\$ 16,740	\$ 21,063
Operations	<u>7,248,921</u>	<u>6,403,545</u>
	<u>\$ 7,265,661</u>	<u>\$ 6,424,608</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2013</u>	<u>2012</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 5,392,174	\$ 4,558,334
Certificates of deposit	1,870,112	1,863,369
Interest receivable	<u>3,375</u>	<u>2,905</u>
	<u>\$ 7,265,661</u>	<u>\$ 6,424,608</u>
Restricted Assets:		
Cash and cash equivalents	<u>\$ 71,461</u>	<u>\$ 71,343</u>

**Interest Rate Risk.** The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2013 and 2012 were as follows:

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 2,024,771	\$ --	\$ --	\$ 2,024,771
Buildings	15,104,662	--	--	15,104,662
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	11,079,853	119,959	--	11,199,812
Fixed Equipment	1,233,496	--	--	1,233,496
Major Movable Equipment	12,143,372	748,490	--	12,891,862
	<u>43,620,847</u>	<u>868,449</u>	<u>--</u>	<u>44,489,296</u>
<u>Depreciation</u>				
Land Improvements	1,181,526	111,382	--	1,292,908
Buildings	4,329,538	711,373	--	5,040,911
Building Components	1,793,033	--	--	1,793,033
Building Service Equipment	5,383,274	404,330	--	5,787,604
Fixed Equipment	628,423	45,520	--	673,943
Major Movable Equipment	9,253,079	953,445	--	10,206,524
Total Depreciation	<u>22,568,873</u>	<u>2,226,050</u>	<u>--</u>	<u>24,794,923</u>
Depreciable Capital Assets, Net	<u>\$ 21,051,974</u>	<u>\$( 1,357,601)</u>	<u>\$ --</u>	<u>\$ 19,694,373</u>
Construction in Progress	\$ 300,215	\$ 376,228	\$ 488,467	\$ 187,976
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 403,555</u>	<u>\$ 376,228</u>	<u>\$ 488,467</u>	<u>\$ 291,316</u>



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 1,997,439	\$ 27,332	\$ --	\$ 2,024,771
Buildings	14,985,870	118,792	--	15,104,662
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	11,009,428	70,425	--	11,079,853
Fixed Equipment	1,227,378	6,118	--	1,233,496
Major Movable Equipment	14,543,916	1,279,399	3,679,943	12,143,372
	<u>45,798,724</u>	<u>1,502,066</u>	<u>3,679,943</u>	<u>43,620,847</u>
<u>Depreciation</u>				
Land Improvements	1,068,776	112,750	--	1,181,526
Buildings	3,697,975	631,563	--	4,329,538
Building Components	1,707,622	85,411	--	1,793,033
Building Service Equipment	4,974,591	408,683	--	5,383,274
Fixed Equipment	618,768	9,655	--	628,423
Major Movable Equipment	11,909,619	1,023,403	3,679,943	9,253,079
Total Depreciation	<u>23,977,351</u>	<u>2,271,465</u>	<u>3,679,943</u>	<u>22,568,873</u>
Depreciable Capital Assets, Net	<u>\$ 21,821,373</u>	<u>\$( 769,399)</u>	<u>\$ --</u>	<u>\$ 21,051,974</u>
Construction in Progress	\$ --	\$ 300,215	\$ --	\$ 300,215
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 103,340</u>	<u>\$ 300,215</u>	<u>\$ --</u>	<u>\$ 403,555</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,226,050 for the year ended June 30, 2013 (\$2,271,465 in 2012), of which \$77,404 (\$52,259 in 2012) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2013 and 2012 follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2013</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 8,074,502	\$ --	\$ 441,622	\$ 7,632,880	\$ 462,404
Less unamortized refunding costs	<u>( 7,013)</u>	<u>--</u>	<u>( 7,013)</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 8,067,489</u>	<u>\$ --</u>	<u>\$ 434,609</u>	<u>\$ 7,632,880</u>	<u>\$ 462,404</u>
	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 8,496,276	\$ --	\$ 421,774	\$ 8,074,502	\$ 441,622
Less unamortized refunding costs	<u>( 29,827)</u>	<u>--</u>	<u>( 22,814)</u>	<u>( 7,013)</u>	<u>( 7,013)</u>
Capital Lease Obligation	<u>138,181</u>	<u>--</u>	<u>138,181</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 8,604,630</u>	<u>\$ --</u>	<u>\$ 537,141</u>	<u>\$ 8,067,489</u>	<u>\$ 434,609</u>

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 and again on December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increases, however, will be limited to a 1.75% increase over the preceding effective interest rate. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE G - NON-CURRENT LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 26% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$807,500 and \$3,180,400, respectively.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2014	\$ 462,404	\$ 345,078	\$ 807,482
2015	484,164	323,318	807,482
2016	506,948	300,534	807,482
2017	530,804	276,678	807,482
2018	555,783	251,699	807,482
2019-2023	3,196,728	840,680	4,037,408
2024-2026	<u>1,896,049</u>	<u>122,654</u>	<u>2,018,703</u>
	<u>\$ 7,632,880</u>	<u>\$ 2,460,641</u>	<u>\$ 10,093,521</u>

Total interest cost for the year ended June 30, 2013 was \$371,250 (\$421,827 in 2012). Interest of \$ - 0 - (\$25,000 in 2012) was capitalized as part of the cost of construction in progress.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE H - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% (5.95% beginning July 1, 2013) of their annual salary and the Hospital is required to contribute 8.67% (8.93% beginning July 1, 2013) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,111,000, \$1,006,000, and \$851,000, respectively, equal to the required contributions for each year.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2013, was approximately \$2,715,400, (\$2,414,578 at June 30, 2012). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2013</u>	<u>2012</u>
Services purchased from HPSI	\$ <u>79,397</u>	\$ <u>80,954</u>
Services and supplies provided to HPSI	\$ <u>26,572</u>	\$ <u>27,679</u>
Amount due to HPSI	\$ <u>19,902</u>	\$ <u>16,574</u>
Member share of net position	\$ <u>452,158</u>	\$ <u>427,814</u>

The member share of net position is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation, therefore the Foundation is considered to be a component unit of the Hospital (see Note A.1). During the year ended June 30, 2013, contributions received from this organization were \$ - 0 - (\$30,355 for 2012).

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE K - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 205 active employees and 2 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management had an actuarial valuation performed dated October 30, 2013. The actuarial report noted the unfunded actuarial accrued liability to be \$291,629. The annual required contribution for the year end June 30, 2013 is \$34,888. The actuarial accrued liability is assuming a 35% participation rate; however, the Hospital's current participation rate is less than one percent. Because of the high assumed participation rate, management considers the actuarial accrued liability to be overstated. Management considers the liability to be immaterial and has not recorded this liability in its statements of net position.

NOTE L - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2013, the Hospital incurred costs of \$187,976 for the purchase of equipment and various computer hardware and software applications that have not been placed in service. The total estimated cost of this health information technology project is approximately \$947,000. The project is being financed through the use of internally generated funds.

Subsequent Event

The Hospital has evaluated all subsequent events through December 11, 2013, the date the financial statements were available to be issued.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE M - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Receivable from:		
Patients	\$ 962,129	\$ 898,755
Medicare	3,609,388	3,000,041
Medicaid	398,087	293,283
Blue Cross	1,435,831	1,178,043
Other commercial insurance carriers	537,507	759,669
Others	<u>76,875</u>	<u>33,549</u>
	7,019,817	6,163,340
Less allowances for doubtful accounts and contractual adjustments	<u>2,202,000</u>	<u>1,519,000</u>
	<u>\$ 4,817,817</u>	<u>\$ 4,644,340</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2013 and 2012

NOTE N - ACCOUNTING CHANGE

During 2013, the Hospital elected to early implement GASB Statement No. 65 "Items Previously Reported as Assets and Liabilities." For the year ended June 30, 2012, the Hospital had unamortized debt issue cost from prior periods of \$131,868. The Hospital recorded the costs as an asset to be amortized over the life of the loan. Under provisions of GASB Statement No. 65, debt issue costs are to be expensed in the year incurred. The change will be made by reducing net position as of the beginning of the 2011-12 year and expenses for the 2011-12 year. The following is a summary of the effect of the change on the individual items in the financial statements for the year ended June 30:

	Previous	2012 Change	Current
Revenues	\$ 26,890,316	\$ --	\$ 26,890,316
Expenses	<u>27,521,303</u>	<u>( 27,907)</u>	<u>27,493,396</u>
Operating Income (Loss)	( 630,987)	27,907	( 603,080)
Non-Operating Revenue	1,337,085	--	1,337,085
Capital Grants and Contributions	<u>93,116</u>	<u>--</u>	<u>93,116</u>
Excess of Revenues Over Expenses and Increase in Net Position	799,214	27,907	827,121
Net Position Beginning of Year	<u>23,694,570</u>	<u>( 131,868)</u>	<u>23,562,702</u>
Net Position End of Year	<u>\$ 24,493,784</u>	<u>\$( 103,961)</u>	<u>\$ 24,389,823</u>

\* \* \*



## REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year ended June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for depreciation, interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,532,004	\$ --	\$ 1,532,004
Other revenues	27,395,714	31,118	27,426,832
Transfers in (out)	<u>31,000</u>	<u>( 31,000)</u>	<u>--</u>
	28,958,718	118	28,958,836
Expenses	<u>28,375,746</u>	<u>--</u>	<u>28,375,746</u>
Net	582,972	118	583,090
Balance beginning of year	<u>24,318,480</u>	<u>71,343</u>	<u>24,389,823</u>
Balance end of year	<u>\$ 24,901,452</u>	<u>\$ 71,461</u>	<u>\$ 24,972,913</u>

  

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,532,004	\$ --	\$ 1,532,004	\$ 1,468,622
Other revenues	<u>27,426,832</u>	<u>448,654</u>	<u>27,875,486</u>	<u>32,423,088</u>
	28,958,836	448,654	29,407,490	33,891,710
Expenses	<u>28,375,746</u>	<u>113,802</u>	<u>28,489,548</u>	<u>33,690,029</u>
Net	583,090	334,852	917,942	201,681
Balance beginning of year	<u>24,389,823</u>	<u>( 16,095,539)</u>	<u>8,294,284</u>	<u>8,294,284</u>
Balance end of year	<u>\$ 24,972,913</u>	<u>\$( 15,760,687)</u>	<u>\$ 9,212,226</u>	<u>\$ 8,495,965</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

Days Since Discharge	2013		2012	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 2,406,650	34.3%	\$ 1,691,422	27.4%
31 - 90	2,195,538	31.3	1,855,878	30.1
91 - 180	455,496	6.5	399,268	6.5
181 - 360	221,502	3.1	172,917	2.8
361 and over	124,527	1.8	121,199	2.0
	5,403,713	77.0	4,240,684	68.8
In hospital and unbilled	1,616,104	23.0	1,922,656	31.2
	<u>7,019,817</u>	<u>100.0%</u>	<u>6,163,340</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	365,000	321,000
Allowance for contractual adjustments	<u>1,837,000</u>	<u>1,198,000</u>
	<u>\$ 4,817,817</u>	<u>\$ 4,644,340</u>

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2013	2012
Balance, beginning	\$ 321,000	\$ 319,447
Provision for bad debts	1,097,528	885,561
Recoveries of accounts previously written off	<u>254,430</u>	<u>353,696</u>
	1,672,958	1,558,704
Accounts written off	<u>1,307,958</u>	<u>1,237,704</u>
Balance, ending	<u>\$ 365,000</u>	<u>\$ 321,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	<u>2013</u>	<u>2012</u>
<u>Inventory</u>		
General stores	\$ 89,208	\$ 96,194
Pharmacy	186,541	196,608
Dietary	18,089	15,282
Operating room	<u>87,062</u>	<u>88,403</u>
	<u>\$ 380,900</u>	<u>\$ 396,487</u>
 <u>Prepaid Expense</u>		
Dues	\$ 15,519	\$ 14,698
Insurance	240,923	72,938
Service contracts	<u>43,491</u>	<u>81,337</u>
	<u>\$ 299,933</u>	<u>\$ 168,973</u>

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**MONTGOMERY COUNTY MEMORIAL HOSPITAL**

**Patient Service Revenue**

Year ended June 30,

	2013	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,076,956	\$ 235,238
Coronary care	1,704,088	242,086
Nursery	<u>86,111</u>	<u>--</u>
	2,867,155	477,324
Other Nursing Services:		
Operating room	368,049	3,041,322
Recovery room	8,986	162,426
Labor and delivery rooms	72,887	37,506
Medical supplies	558,629	1,298,799
Intravenous therapy	1,717,464	665,391
Emergency service	1,447	1,903,984
Wound/ostomy care	503	33,723
Outpatient clinics	<u>451</u>	<u>330,427</u>
	2,728,416	7,473,578
Other Professional Services:		
Emergency room physicians	169	1,001,662
Laboratory	644,813	2,693,661
Electrocardiology	101,923	349,179
Electroencephalography	5,294	18,338
Radiology	151,295	1,732,615
Ultrasound	84,901	834,443
CT scan	190,250	3,055,165
Mammography	--	456,867
MRI	69,605	1,212,160
Nuclear medicine	42,870	296,761
Pharmacy	1,539,215	1,897,298
Anesthesiology	127,193	655,216
Inhalation therapy	927,183	344,994
Physical therapy	111,885	905,347
Speech therapy	5,938	26,056
Occupational therapy	7,588	179,393
Cardiopulmonary rehabilitation	--	90,147
Oncology	16,134	1,191,688
Sleep study	--	202,771
Home health	--	322,952
Hospice	--	455,612
Business health	--	133,331
Women's Health Clinic	--	375,528
Villisca Medical Clinic	--	249,273
Surgical services	--	1,092,566
Internal Medicine Clinic	<u>--</u>	<u>1,880,847</u>
	4,026,256	21,653,870
	<u>\$ 9,621,827</u>	<u>\$ 29,604,772</u>

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2013		2012
Swing Bed	Total	Total
\$ 1,240,141	\$ 2,552,335	\$ 3,009,160
--	1,946,174	1,860,837
--	86,111	101,305
<u>1,240,141</u>	<u>4,584,620</u>	<u>4,971,302</u>
15,398	3,424,769	1,837,488
240	171,652	167,148
--	110,393	126,363
195,255	2,052,683	2,073,340
517,765	2,900,620	3,384,794
--	1,905,431	1,807,179
465	34,691	22,854
309	331,187	291,909
<u>729,432</u>	<u>10,931,426</u>	<u>9,711,075</u>
--	1,001,831	1,008,273
191,307	3,529,781	3,346,249
6,126	457,228	400,250
--	23,632	20,376
42,249	1,926,159	1,773,043
11,372	930,716	850,750
32,370	3,277,785	3,191,968
--	456,867	398,236
7,055	1,288,820	1,206,770
6,702	346,333	214,336
932,321	4,368,834	4,242,554
1,403	783,812	787,592
479,960	1,752,137	2,000,314
249,710	1,266,942	1,378,544
6,313	38,307	80,709
39,103	226,084	238,926
--	90,147	120,210
7,288	1,215,110	1,719,782
--	202,771	199,534
--	322,952	458,912
--	455,612	355,057
--	133,331	116,221
--	375,528	443,853
--	249,273	189,291
--	1,092,566	982,189
--	1,880,847	1,985,801
<u>2,013,279</u>	<u>27,693,405</u>	<u>27,709,740</u>
<u>\$ 3,982,852</u>	<u>\$ 43,209,451</u>	<u>\$ 42,392,117</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 43,209,451	\$ 42,392,117
Contractual adjustments	( 14,784,647)	( 14,643,838)
Discounts and allowances	( 151,912)	( 120,467)
Charity care	( 45,606)	( 241,080)
Provision for bad debts	<u>( 1,097,528)</u>	<u>( 885,561)</u>
	<u>\$ 27,129,758</u>	<u>\$ 26,501,171</u>
Other Operating Revenue:		
Meals sold	\$ 96,146	\$ 94,685
Prisoner meals	43,712	29,451
Meals on wheels	26,880	34,347
Lifeline	68,547	63,886
Medical record transcripts	1,439	1,825
Case management	37,566	45,049
Wellness	31,694	29,000
Contracted services	30,775	24,490
Certified training classes	--	2,960
Miscellaneous	<u>55,303</u>	<u>63,452</u>
	<u>\$ 392,062</u>	<u>\$ 389,145</u>

See Independent Auditor's Report.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Administrative:		
Salaries and wages	\$ 166,783	\$ 161,690
Employee benefits	47,904	46,901
Supplies and other expense	<u>8,003</u>	<u>8,647</u>
	222,690	217,238
Quality Assurance:		
Salaries and wages	69,764	65,174
Employee benefits	22,415	15,439
Supplies and other expense	<u>9,788</u>	<u>9,200</u>
	101,967	89,813
Inservice:		
Salaries and wages	64,480	60,770
Employee benefits	31,958	29,664
Supplies and other expense	<u>66,065</u>	<u>31,637</u>
	162,503	122,071
Medical and Surgical:		
Salaries and wages	1,681,199	1,660,444
Employee benefits	632,692	565,317
Supplies and other expense	<u>120,780</u>	<u>155,977</u>
	2,434,671	2,381,738
Coronary Care:		
Salaries and wages	990,042	920,088
Employee benefits	344,504	308,577
Supplies and other expense	<u>43,446</u>	<u>39,321</u>
	1,377,992	1,267,986
Obstetric:		
Salaries and wages	25,845	31,217
Employee benefits	4,210	4,822
Supplies and other expense	<u>39,500</u>	<u>17,185</u>
	69,555	53,224

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Nursery:		
Salaries and wages	\$ 30,123	\$ 37,470
Employee benefits	4,909	5,800
Supplies and other expense	<u>2,750</u>	<u>2,938</u>
	37,782	46,208
Operating Room:		
Salaries and wages	416,269	406,302
Employee benefits	169,135	149,790
Supplies and other expense	<u>591,432</u>	<u>171,229</u>
	1,176,836	727,321
Labor and Delivery:		
Salaries and wages	14,421	17,323
Employee benefits	2,348	2,676
Supplies and other expense	<u>1,090</u>	<u>608</u>
	17,859	20,607
Central Services and Supply:		
Salaries and wages	176,418	186,469
Employee benefits	82,698	85,229
Supplies sold to patients	133,894	494,107
Supplies and other expense	<u>9,706</u>	<u>9,217</u>
	402,716	775,022
Intravenous Therapy:		
Solutions	26,940	33,525
Emergency Services:		
Salaries and wages	551,481	536,011
Employee benefits	116,633	113,019
Supplies and other expense	<u>47,215</u>	<u>45,313</u>
	715,329	694,343
Outpatient Clinics:		
Salaries and wages	298,393	271,865
Employee benefits	120,389	100,280
Supplies and other expense	<u>43,090</u>	<u>38,042</u>
	461,872	410,187
	<u>\$ 7,208,712</u>	<u>\$ 6,839,283</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,485,218	\$ 4,354,823
Employee benefits	1,579,795	1,427,514
Other expense	<u>1,143,699</u>	<u>1,056,946</u>
	<u>\$ 7,208,712</u>	<u>\$ 6,839,283</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Emergency Room Physicians:		
Professional fees	\$ 1,039,716	\$ 1,009,326
Laboratory:		
Salaries and wages	544,691	522,431
Employee benefits	163,917	149,787
Purchased services	201,771	99,697
Supplies and other expense	<u>469,050</u>	<u>544,921</u>
	1,379,429	1,316,836
Blood Bank:		
Cost of blood	139,410	153,774
Electrocardiology:		
Salaries and wages	16,155	17,991
Employee benefits	2,621	2,781
Purchased services	<u>98,226</u>	<u>93,616</u>
	117,002	114,388
Electroencephalography:		
Salaries and wages	570	868
Employee benefits	<u>93</u>	<u>135</u>
	663	1,003
Radiology:		
Salaries and wages	492,770	480,222
Employee benefits	168,085	153,170
Supplies and other expense	<u>388,033</u>	<u>112,493</u>
	1,048,888	745,885
Ultrasound:		
Salaries and wages	97,137	95,500
Employee benefits	16,077	22,054
Supplies and other expense	<u>48,846</u>	<u>49,545</u>
	162,060	167,099

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
CT Scan:		
Supplies and other expense	\$ 113,461	\$ 229,491
Mammography:		
Purchased services	69,098	97,740
Supplies and other expense	<u>32,969</u>	<u>19,369</u>
	102,067	117,109
MRI:		
Purchased services	132,500	151,500
Supplies and other expense	<u>9,089</u>	<u>6,825</u>
	141,589	158,325
Nuclear Medicine:		
Purchased services	54,335	40,895
Supplies and other expense	<u>2,229</u>	<u>--</u>
	56,564	40,895
Pharmacy:		
Salaries and wages	326,100	308,663
Employee benefits	71,896	64,366
Purchased services	96,388	85,470
Drugs	523,191	602,175
Supplies and other expense	<u>12,525</u>	<u>22,271</u>
	1,030,100	1,082,945
Anesthesiology:		
Salaries and wages	395,746	419,873
Employee benefits	77,829	78,946
Professional fees	240	1,678
Supplies and other expense	<u>33,858</u>	<u>41,160</u>
	507,673	541,657
Inhalation Therapy:		
Salaries and wages	342,918	354,485
Employee benefits	110,696	106,834
Professional fees	48,453	550
Supplies and other expense	<u>53,835</u>	<u>50,430</u>
	555,902	512,299

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MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Physical Therapy:		
Professional fees	\$ 482,495	\$ 523,165
Supplies and other expense	<u>18,005</u>	<u>12,970</u>
	500,500	536,135
Speech Therapy:		
Professional fees	33,270	58,095
Occupational Therapy:		
Professional fees	91,937	95,464
Cardiopulmonary Rehabilitation:		
Salaries and wages	100,761	104,583
Employee benefits	29,765	30,226
Supplies and other expense	<u>5,352</u>	<u>5,554</u>
	135,878	140,363
Oncology:		
Salaries and wages	170,696	162,741
Employee benefits	40,802	38,137
Supplies and other expense	<u>476,077</u>	<u>509,898</u>
	687,575	710,776
Sleep Study:		
Salaries and wages	56,621	54,943
Employee benefits	9,713	10,514
Supplies and other expense	<u>9,503</u>	<u>14,695</u>
	75,837	80,152
Home Health:		
Salaries and wages	229,716	276,709
Employee benefits	96,241	91,306
Professional fees	35,527	76,490
Purchased services	18,910	21,064
Supplies and other expense	<u>26,409</u>	<u>31,195</u>
	406,803	496,764

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Hospice:		
Salaries and wages	\$ 114,356	\$ 65,158
Employee benefits	23,619	14,778
Purchased services	62,042	71,473
Supplies and other expense	<u>50,025</u>	<u>45,081</u>
	250,042	196,490
Business Health:		
Salaries and wages	37,657	36,292
Employee benefits	11,278	10,416
Supplies and other expense	<u>16,634</u>	<u>16,160</u>
	65,569	62,868
Women's Health Clinic:		
Salaries and wages	345,879	332,146
Employee benefits	96,949	97,148
Supplies and other expense	<u>33,150</u>	<u>47,941</u>
	475,978	477,235
Villisca Medical Clinic:		
Salaries and wages	169,797	164,424
Employee benefits	60,049	50,269
Supplies and other expense	<u>64,921</u>	<u>63,887</u>
	294,767	278,580
Surgical Services:		
Salaries and wages	396,385	382,561
Employee benefits	57,671	53,100
Supplies and other expense	<u>36,346</u>	<u>37,246</u>
	490,402	472,907
Internal Medicine Clinic:		
Salaries and wages	943,271	918,820
Employee benefits	258,048	237,253
Purchased services	37,871	46,485
Supplies and other expense	<u>79,254</u>	<u>75,320</u>
	1,318,444	1,277,878
Social Services:		
Salaries and wages	108,043	103,212
Employee benefits	29,305	26,946
Supplies and other expense	<u>1,679</u>	<u>2,152</u>
	139,027	132,310

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Lifeline:		
Supplies and other expense	\$ 59,211	\$ 57,056
Health Information Management:		
Salaries and wages	322,441	318,793
Employee benefits	107,898	97,767
Supplies and other expense	<u>54,313</u>	<u>48,897</u>
	484,652	465,457
Case Management:		
Salaries and wages	1,735	1,411
Employee benefits	3,814	147
Supplies and other expense	<u>3,333</u>	<u>7,340</u>
	8,882	8,898
Diabetes Program:		
Salaries and wages	76,536	74,520
Employee benefits	25,888	24,017
Supplies and other expense	<u>2,997</u>	<u>4,594</u>
	105,421	103,131
Wound/Ostomy Care:		
Purchased services	15,714	--
Supplies and other expense	<u>1,244</u>	<u>--</u>
	16,958	--
	<u>\$ 12,035,677</u>	<u>\$ 11,841,591</u>

SUMMARY

Salaries and wages	\$ 5,289,981	\$ 5,196,346
Employee benefits	1,462,254	1,360,097
Professional fees	1,731,638	1,764,768
Other expense	<u>3,551,804</u>	<u>3,520,380</u>
	<u>\$ 12,035,677</u>	<u>\$ 11,841,591</u>

See Independent Auditor's Report.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Dietary:		
Salaries and wages	\$ 463,707	\$ 451,234
Employee benefits	188,395	182,038
Food	222,183	214,866
Supplies and other expense	<u>55,992</u>	<u>46,609</u>
	930,277	894,747
Housekeeping:		
Salaries and wages	432,231	407,158
Employee benefits	205,096	195,024
Purchased services	20,818	23,872
Supplies and other expense	<u>101,859</u>	<u>105,844</u>
	760,004	731,898
Laundry and Linen:		
Purchased services	100,099	110,214
Supplies and other expense	<u>2,667</u>	<u>3,419</u>
	102,766	113,633
Plant Engineering:		
Salaries and wages	206,967	199,905
Employee benefits	54,500	47,934
Utilities	413,394	386,628
Purchased services	39,132	37,800
Supplies and other expense	<u>201,251</u>	<u>168,919</u>
	915,244	841,186
	<u>\$ 2,708,291</u>	<u>\$ 2,581,464</u>

SUMMARY

Salaries and wages	\$ 1,102,905	\$ 1,058,297
Employee benefits	447,991	424,996
Other expense	<u>1,157,395</u>	<u>1,098,171</u>
	<u>\$ 2,708,291</u>	<u>\$ 2,581,464</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Administrative:		
Salaries and wages	\$ 270,789	\$ 264,564
Employee benefits	243,654	227,080
Professional fees	43,619	59,745
Dues and subscriptions	93,720	34,894
Purchased services	29,564	25,145
Collection fees	54,818	53,829
Telephone	29,619	30,292
Supplies and other expense	<u>101,280</u>	<u>141,567</u>
	867,063	837,116
Accounting:		
Salaries and wages	216,756	210,605
Employee benefits	64,534	57,539
Supplies and other expense	<u>21,725</u>	<u>20,854</u>
	303,015	288,998
Admissions/Business Office:		
Salaries and wages	222,627	229,436
Employee benefits	79,613	75,166
Supplies and other expense	<u>27,283</u>	<u>27,955</u>
	329,523	332,557
Patient Accounting:		
Salaries and wages	284,643	243,376
Employee benefits	100,206	88,460
Supplies and other expense	<u>48,332</u>	<u>49,802</u>
	433,181	381,638
Fiscal Services:		
Salaries and wages	135,077	128,951
Employee benefits	62,048	66,769
Purchased services	2,224	2,293
Supplies and other expense	<u>5,183</u>	<u>4,598</u>
	204,532	202,611
Information Systems:		
Salaries and wages	739,303	738,042
Employee benefits	197,928	204,091
Purchased services and maintenance	455,514	337,209
Supplies and other expense	<u>63,485</u>	<u>71,233</u>
	1,456,230	1,350,575

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Human Resources:		
Salaries and wages	\$ 87,287	\$ 81,970
Employee benefits	46,649	41,942
Purchased services	3,916	4,312
Supplies and other expense	<u>44,531</u>	<u>25,062</u>
	182,383	153,286
Public Relations:		
Salaries and wages	80,212	78,910
Employee benefits	22,050	16,886
Supplies and other expense	<u>120,549</u>	<u>97,660</u>
	222,811	193,456
DRG/Utilization Review:		
Salaries and wages	106,340	101,756
Employee benefits	28,279	27,183
Supplies and other expense	<u>473</u>	<u>1,655</u>
	135,092	130,594
Insurance:		
Liability and property insurance	<u>140,590</u>	<u>141,021</u>
	<u>\$ 4,274,420</u>	<u>\$ 4,011,852</u>

SUMMARY

Salaries and wages	\$ 2,143,034	\$ 2,077,610
Employee benefits	844,961	805,116
Professional fees	43,619	59,745
Other expense	<u>1,242,806</u>	<u>1,069,381</u>
	<u>\$ 4,274,420</u>	<u>\$ 4,011,852</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 13,021,138	\$ 12,687,076
Employee benefits	4,335,001	4,017,723
Professional fees	1,775,257	1,824,513
Other expense	<u>7,095,704</u>	<u>6,744,878</u>
	<u>\$ 26,227,100</u>	<u>\$ 25,274,190</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Admissions	767	798	825	906	1,099
Discharges	759	797	825	915	1,096
Average Length of Stay	3.77	3.70	3.54	3.70	3.63
Acute Patient Days	2,861	2,947	2,919	3,387	3,982
Average Occupied Beds	7.8	8.1	8.0	9.3	10.9
Swing Bed Days	2,141	2,755	2,716	2,750	2,290
Combined Average Occupied Beds	13.7	15.6	15.4	16.8	17.2
Beds Available	25	25	25	25	25
Nursery Days	123	150	126	158	190
Outpatient Occasions of Service	37,890	39,031	40,682	40,328	42,096

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Net Position  
June 30,

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash	\$ 677,678	\$ 1,657,621
Receivables, net	4,885,015	4,706,719
Inventory	380,900	396,487
Prepaid expense	299,933	168,973
Estimated third-party payor settlements	953,000	--
Succeeding year property tax receivable	1,525,000	1,469,000
Internally designated assets	<u>88,201</u>	<u>92,406</u>
Total current assets	8,809,727	8,491,206
Other Assets:		
Internally designated and restricted assets	7,248,921	6,403,545
Capital assets, net	19,985,689	21,455,529
Other non-current assets	<u>540,107</u>	<u>518,817</u>
Total other assets	<u>27,774,717</u>	<u>28,377,891</u>
	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 462,404	\$ 434,609
Accounts payable	756,426	1,167,688
Estimated third-party payor settlements	--	207,000
Accrued expenses	1,697,225	1,568,097
Deferred revenue for succeeding year property tax receivable	<u>1,525,000</u>	<u>1,469,000</u>
Total current liabilities	4,441,055	4,846,394
Long-Term Debt, Net	7,170,476	7,632,880
Net Position	<u>24,972,913</u>	<u>24,389,823</u>
	<u>\$ 36,584,444</u>	<u>\$ 36,869,097</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 1,890,890	\$ 584,377	\$ 1,138,063
3,597,681	4,670,816	4,102,927
413,594	397,955	387,787
430,890	419,605	127,948
938,000	554,000	--
1,395,000	1,364,000	1,282,000
91,989	847,260	1,003,162
<u>8,758,044</u>	<u>8,838,013</u>	<u>8,041,887</u>
5,484,053	3,638,107	6,430,070
21,924,713	20,655,089	13,595,321
482,575	468,312	678,058
<u>27,891,341</u>	<u>24,761,508</u>	<u>20,703,449</u>
<u>\$ 36,649,385</u>	<u>\$ 33,599,521</u>	<u>\$ 28,745,336</u>
\$ 430,524	\$ 727,444	\$ 497,340
1,670,469	1,508,912	673,622
--	--	35,000
1,416,584	1,325,410	1,265,831
<u>1,395,000</u>	<u>1,364,000</u>	<u>1,282,000</u>
<u>4,912,577</u>	<u>4,925,766</u>	<u>3,753,793</u>
8,174,106	4,589,123	1,653,893
<u>23,562,702</u>	<u>24,084,632</u>	<u>23,337,650</u>
<u>\$ 36,649,385</u>	<u>\$ 33,599,521</u>	<u>\$ 28,745,336</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2013</u>	<u>2012</u>
Patient Service Revenue	\$ 43,209,451	\$ 42,392,117
Adjustments to Patient Service Revenue	<u>( 16,079,693)</u>	<u>( 15,890,946)</u>
Net Patient Service Revenue	27,129,758	26,501,171
Other Revenue	<u>392,062</u>	<u>389,145</u>
Total Revenue	27,521,820	26,890,316
Expenses	<u>28,375,746</u>	<u>27,493,396</u>
Operating Loss	( 853,926)	( 603,080)
Non-Operating Revenue, Net	<u>1,406,016</u>	<u>1,337,085</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	552,090	734,005
Capital Grants and Contributions	<u>31,000</u>	<u>93,116</u>
Increase (Decrease) in Net Position	<u>\$ 583,090</u>	<u>\$ 827,121</u>

See Independent Auditor's Report.

<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 40,741,153	\$ 37,807,125	\$ 36,707,743
<u>( 15,346,995)</u>	<u>( 13,158,375)</u>	<u>( 13,097,499)</u>
25,394,158	24,648,750	23,610,244
<u>335,312</u>	<u>388,907</u>	<u>415,627</u>
25,729,470	25,037,657	24,025,871
<u>27,552,077</u>	<u>25,645,860</u>	<u>24,828,811</u>
( 1,822,607)	( 608,203)	( 802,940)
<u>1,255,677</u>	<u>1,290,790</u>	<u>1,603,965</u>
( 566,930)	682,587	801,025
<u>45,000</u>	<u>64,395</u>	<u>25,000</u>
<u><u>\$ ( 521,930)</u></u>	<u><u>\$ 746,982</u></u>	<u><u>\$ 826,025</u></u>



## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2013, and have issued our report thereon dated December 11, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Montgomery County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 13-I-A to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Response to Findings**

Montgomery County Memorial Hospital's response to the findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewoll, Ben, Kyhn & W.P.C.

Atlantic, Iowa  
December 11, 2013

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2013

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

13-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This is a common deficiency among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2013

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

13-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2013 did not exceed amounts budgeted.

13-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

13-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

13-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

13-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

13-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*